

HON. RON PAUL OF TEXAS IN THE HOUSE OF REPRESENTATIVES May 6, 2003

The False Tax Cut Debate

The current tax cut debate is more about politics than serious economics. Both sides use demagoguery but don't propose significant tax cuts. The benefits that could come from the current tax cut proposal unfortunately are quite small and not immediate.

Some say tax cuts raise revenues by increasing economic activity, thus providing Congress with even more money to spend. Others say lowering taxes simply lowers revenues and increases deficits.

Some say we must target tax cuts to the poor and middle class so they will spend the money. Others say tax cuts should be targeted to the rich so they can invest and create jobs.

We must accept that it's hard to give tax cuts to people who don't pay taxes. But, we could, if we wanted, cut payroll taxes for lower income workers.

The truth is, government officials can't know what consumers and investors will do if they get a tax cut. Plugging tax cut data into a computer and expecting an accurate projection of the economic outcome is about as reliable as asking Congress to project government surpluses.

Two important points are purposely ignored:

1. The money people earn is their own and they have a moral right to keep as much of it as possible. It is not Congress' money to spend.
2. Government spending is the problem! Taking a big chunk of the people's earnings out of the economy, whether through taxes or borrowing, is always harmful.

Taxation is more honest and direct, and the harm is less hidden. Borrowing, especially since the Federal Reserve creates credit out of thin air to loan to big spenders in Congress, is more deceitful. It hides the effects and delays the consequences. But over the long term this method of financing is much more dangerous.

The process by which the Fed monetizes debt and accommodates Congress contributes to, if not causes, most of our problems.

This process of government financing:

1. Generates the “business” cycle and thus increases unemployment;
2. Destroys the value of the dollar and thus causes price inflation;
3. Encourages deficits by reducing restraints on congressional spending;
4. Encourages an increase in the current account deficit (the dollar being the reserve currency) and causes huge foreign indebtedness;
5. Reflects a philosophy of instant gratification that says, “Live for the pleasures of today and have future generations pay the bills.”

Two points to remember:

1. Whether or not people can keep what they earn is first a moral issue and second an economic issue. Tax cuts should never be referred to as a “cost to government.” Tax cuts should be much bigger and come much sooner for everyone.

2. The real issue is *total spending by government*, yet this issue is ignored or politicized by both sides of the aisle in Congress.

The political discussion about whether to cut taxes avoids the real issues and instead degenerates into charges of class and party warfare, with both sides lusting for power.

Of course the real issue for the ages, namely “What is the proper role for government in a constitutional republic?” is totally ignored. And yet the bigger question is: “Are the American people determined they still wish to have a constitutional republic?”